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CENTRAL INTELLIGENCE AGENCY
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INTELLIGENCE MEMORANDUM

Peru: Seeking an End to Military Rule

Key Points

- The convocation of a civilian constituent assembly is a significant step forward in President Morales Bermudez' plan to return constitutional rule to the country by 1980. Besides drafting a new national charter, the assembly will serve as an important bridge between the present military government and civilian political leaders.
- An effective working relationship appears to be evolving in the assembly between the two largest democratic parties, which--along with two other minor parties--control two thirds of the assembly seats. This cooperation should ensure passage of most constitutional articles.
- Five militant far-left parties, however, seem bent on challenging the government and embarrassing the democratic majority by disrupting the assembly proceedings. Assembly President Haya de la Torre will have to keep these parties in line to avoid confrontations with the government that could pose problems for the democratization process.

This memorandum was prepared by the Latin America Division of the Office of Regional and Political Analysis. Questions and comments may be addressed to

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- Unless confronted by extreme provocations from the far left or by an economic collapse, the military establishment will probably remain united behind Morales Bermudez' plan for a phased return to constitutional rule.
- The country's military leaders will probably not approve a return to constitutional rule until tangible progress has been made in solving Peru's economic crisis. Since the government's two-and-one-half-year economic program has only recently been instituted, some slippage in the democratization program appears likely. It is doubtful that there can be a full return to civilian government before the end of 1980.

The Constituent Assembly

The convocation of a constituent assembly in late July, following 10 years of military rule, is an important step in the government's plan to return the country to civilian rule by 1980. But there are some areas of potential conflict between the government and the assembly that, if not carefully avoided, could pose problems for the democratization process.

The seeds of discord lie in the inherently unstable relationship between a duly constituted power elected by the people and a de facto executive that governs without a popular mandate. The assembly president, Dr. Haya de la Torre, underlined the conflict in his maiden address when he pronounced the assembly the foremost power of the state and a fully sovereign body that recognizes "neither conditions, limitations, nor directives."

While the assembly was elected solely to draw up a new constitution, it is conceded by assemblymen and government officials alike that it could assume broader--though still undefined--legislative powers. An article in the internal rules of the assembly describing its functions states only that it will "prescribe norms" that will complement the constitution and "adopt those decisions in the national interest that it judges necessary."

Government leaders and Haya--whose American Popular Revolutionary Alliance (APRA) holds a plurality of 37 seats in the 100-seat assembly--appear to believe that it is in the interests of both to keep the assembly's non-constitutional duties vague until they can grope their way to a modus vivendi. The government reportedly would not mind sharing some power with the assembly in order to diffuse responsibility for extremely unpopular economic measures made necessary by the severe financial crisis Peru currently faces, but assemblymen have no desire to assume any of the blame for the government's economic failures.

Some military leaders reportedly are uneasy over the turn the initial assembly deliberations have taken. One of the assembly's first decisions was to form a commission to investigate the illegal acquisition of wealth during the period of military rule and the causes of the current financial crisis. Should the commission take its duties seriously, which most observers seem to doubt, it could provoke a strong reaction from the military.

A proposal to be made by the assembly's second largest party--the Popular Christian (PPC), which holds 25 seats--to guard against future military takeovers probably also disturbs the present government. The motion proposes that: debts contracted by any future de facto government would not be honored; all officials of such governments would be held strictly accountable for their actions; and any future coup leaders would be tried for violating the legally established order.

The activities of five far-left parties represented in the assembly have been perhaps the most disquieting element for both the government and the assembly's democratic majority. Leaders of some of these parties have publicly announced their intention to challenge the government and embarrass the assembly by disrupting its proceedings. Potentially even more damaging have been the efforts of some delegates to instigate labor strife while hiding behind the shield of parliamentary immunity.

Despite differences on some constitutional issues, the two large democratic parties--APRA and the PPC--appear to recognize that cooperation is the key to a successful conclusion of the assembly's deliberations. In fact, an effective working relationship between them is already evolving. Their 62 votes, plus four from several small non-Marxist parties, should be enough to ensure passage of those articles that the far left finds objectionable. Even on constitutional questions where the two parties differ, there appears to be some latitude for compromise. Assembly insiders are predicting that the constitution could be completed within six months, thus providing the government with an opportunity to hold elections earlier than expected if it so chooses. The government could agree to early provincial and municipal balloting, which would at least partially satisfy demands by the political parties that they be allowed to initiate the electoral process.

Haya de la Torre's most difficult task will be to keep the assembly's attention focused squarely on the constitution and away from public issues likely to create friction with the government. The success of Haya's efforts to keep the assembly in line, however, could be influenced by events outside his control. The spectre of economic collapse has still not been dissipated, and recently there has been a resurgence of serious labor unrest. The temptation to discuss these issues in the assembly so far has proved difficult to resist. Haya's decision to have much of the assembly's work done by committee should minimize the opportunities for prolonged, divisive debate, which the far left would surely seek to exploit.

At the same time, the military regime, wearied by the burdens of governing, can be expected to show more forbearance toward the assembly as its deliberations proceed. The back-to-the-barracks sentiment of the officer corps has already been demonstrated by the government's willingness to cooperate closely with APRA, which for five decades had been an implacable foe of the military establishment.

This enmity dates back to the 1930s, when there were armed clashes between the two sides. The Peruvian Army's hatred for Haya and his party, which has remained an important political force, has frequently provided motivation for intervention by the military in the country's politics--especially to keep Haya out of office.

Now, however, APRA has moderated its once stridently leftist political line, and its broad political base and strong ties to organized labor make it a logical partner in the political transition. Unless confronted by extreme provocations from the far left or by an economic collapse, the military will therefore probably remain united behind Morales Bermudez' plan for a phased return to constitutional rule.

The Influence of the Economy

Assuming the assembly hammers out an acceptable constitution, further steps in the transition are dependent on tangible progress in solving the economic crisis. The new civilian economic team appointed in May has outlined a two-and-one-half-year stabilization program that it hopes will close Peru's financial gap, restore balance-of-payments equilibrium, significantly reduce inflation, and revive domestic production.

New IMF loans and the successful rescheduling of Peru's massive \$4.8 billion foreign debt are two key elements in closing the gap. Lima has renegotiated a larger IMF standby of \$230 million to replace the one that collapsed in March. A tranche of \$15 million was drawn in late September. The second \$15 million will become available on 10 December and the third, for \$25 million, on 10 February 1979. Subsequent drawings of \$25 million can be made at three-month intervals thereafter. Lima also has drawn \$80 million from the IMF's Export Credit Compensation Fund.

In June, Peru reached agreement with an international banking consortium for a six-month postponement on payment of \$185 million of its private foreign debt. The government will seek a further rollover of this debt when

it comes due in January, and also a program loan of at least \$100 million from the World Bank.

At a meeting of the Paris Club in November, Peru will try to obtain a rescheduling of some \$500 million government-to-government debt due in 1979/1980. Its objective is to reduce substantially public sector debt service from the present staggering 50 percent of annual export earnings.

Initially the government hopes to increase exports and depress imports through a modified exchange-rate policy. The sol probably will be devalued to about 200 to the dollar by the end of the year. Severe fiscal and monetary restraints, as well as sharply increased interest rates, also will be utilized to suppress demand, promote savings, and further discourage the influx of expensive imported goods.

The government plans a significant cutback in public spending and deficit financing by the Central Bank, major tax reform, and a further reduction of subsidies. These policies, it hopes, will eventually succeed in turning the domestic economy around. Government leaders had also planned to cut back the number of government employees by about 30,000, but an extremely effective strike by state employees on 6 September apparently persuaded them to settle for a modest reduction of several thousand.

In the longer run, the government hopes to divert public expenditures toward more investment in an effort to revive domestic industrial and agricultural production. Available credit also will be channeled into the priority areas of agriculture, energy, mining, and exports.

International bankers reportedly believe that the leaders of the new economic team--Finance Minister Silva and Central Bank President Moreyra--are extremely competent and enjoy the strong backing of the Peruvian government. They are optimistic that, after years of floundering, a coherent strategy for stabilization and recovery is gradually taking shape.

Many economists and bankers in Peru feel that if the authorities stick to the present program--and this is a big "if" in view of previous backsliding--the next six to nine months could see an upturn in the economy. Though this optimism may be premature, it has been some time since people in Peruvian financial circles have talked so positively.

Implementation of the plan will be difficult. Peruvians have been forced to live with austerity for the past two years and there is little relief in sight. Token wage increases have done little to take the edge off inflation, which is expected to reach 70-80 percent by the end of the year. The public's willingness to accept further decreases in subsidies is also doubtful.

The combination of soaring inflation and additional layoffs will make it even more difficult for the government to control labor--which has grown increasingly more restive in recent weeks. Efforts to increase exports were dealt a severe blow in August by a month-long miners' strike, which cost Peru approximately \$60 million in foreign exchange. Further disabling strikes can be expected.

Outlook

Of the goals that the new economic team has set itself, only the attainment of equilibrium in the country's balance-of-payments appears close to realization any time soon. A slight payments surplus was projected for this year, in fact, before the crippling miners' strike.

Progress on closing the financial gap is heavily dependent upon continuance of the IMF arrangement and success in debt rescheduling. In order to secure and maintain this assistance, Peruvian leaders will have to adhere closely to the program they have outlined. Their past performance is not reassuring in this regard.

Inflation will probably get worse before it gets better, and revival of domestic production is a distant prospect at best.

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Significant progress in solving Peru's economic ills, if achieved at all, will probably not be very much in evidence until near the end of the two-and-one-half-year economic program. Some slippage in the democratization program appears likely, therefore, since it is doubtful that the country's military leaders will approve a return to constitutional rule until economic objectives are met. It is unlikely that there can be a full return to civilian government much before the end of 1980 and, because of the economic uncertainties Peru faces, even that timetable may be overly optimistic.

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